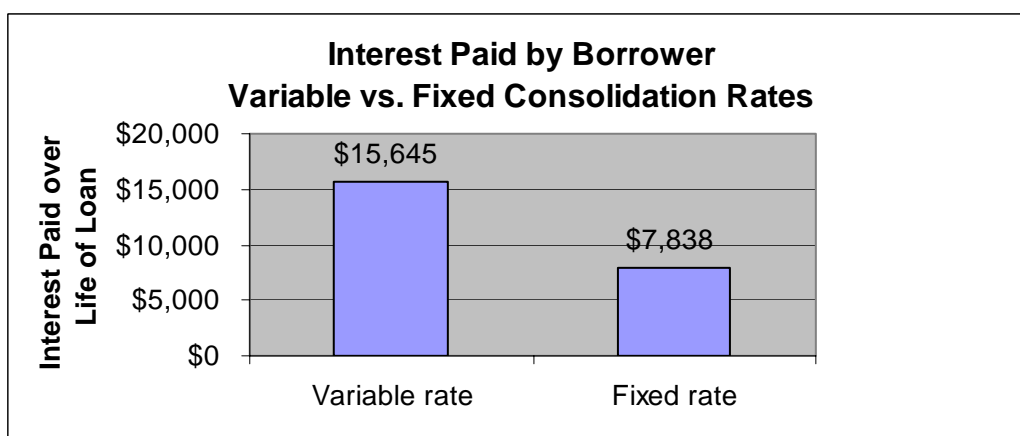




## Support manageable debt repayment for students: Uphold Fixed Rates in Student Loan Consolidation!

### Why is a fixed consolidation rate important for student borrowers?

Fixed consolidation rates allow student borrowers to save thousands of dollars in loan interest payments, by locking in favorable interest rates that provide for predictable, low monthly payments. For borrowers with high levels of debt, consolidation can make the difference between manageable and burdensome loan repayment.



\*Calculations based on a \$20,000 consolidation loan, the average undergraduate debt, paid over twenty years, consolidated in July 2003. (Variable rate calculated based on U.S. CBO projections, at an average of 6.45 percent.)

### What are the risks in changing the consolidation rate to variable?

If consolidation rates were made variable, the average student borrower would pay thousands more in interest over the life of one's loan. At a time in which college tuitions are increasing at the fastest rate in decades and students are borrowing increasing amounts to pay for higher education, a variable consolidation rate would make a college education even more expensive. A student borrower with a \$20,000 twenty-year consolidation loan would pay an additional \$7,807 in interest costs. The monthly payments on this loan would be 28 percent higher, on average, under a variable interest rate. At a time in which students are facing enormous hurdles to affordable higher education, Congress shouldn't make loan repayment more expensive.

### Who benefits from fixed consolidation benefits?

The average borrower who consolidates is young (nearly 60 percent of consolidation loans are held by individuals who are age 35 or younger).<sup>\*</sup> More than half had incomes between \$35,000 and \$75,000; 25 percent had incomes less than \$35,000. Many work in the social services: both nurses and teachers were over-represented in the consolidation demographics, as compared with the population overall.

### Why are some large student loan companies against low fixed interest rates for student borrowers?

Consolidation loans aren't as profitable for banks, since lenders are required to pay an annual holder fee of 1.05 percent on every consolidation loan, as well as a one-time origination fee. In addition, many large lenders view the consolidation program as a threat to their loan portfolios, because a fixed interest rate encourages competition for lenders to offer borrowers the best terms and conditions. Eliminating the borrower benefit of a fixed interest rate is a means for these lenders to maximize their profits, at a cost to student borrowers.

<sup>\*</sup>Based on the demographics of 236,000 borrowers with consolidation loans under Collegiate Funding Services.



## A History of Opposition to Variable Consolidation Rates

In April of 2002, when President Bush proposed changing student loan consolidation rates from fixed to variable, a public firestorm erupted. Within weeks, the administration withdrew this proposal, in response to opposition from students, consumers, and Congressional members from both parties.

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"Reaction to the proposal from lawmakers in both parties was swift and negative, and White House spokesman Ari Fleischer quickly distanced President Bush from the idea. Yesterday, Deputy Education Secretary William D. Hansen made it official, telling Kennedy's committee that **'the administration is not pursuing a change in the loan-consolidation program, period.'**"

—from the *Boston Globe*, 'Loan Plan Dies as Senators Clash' (May 10, 2002)

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**'We shouldn't increase the interest rates they will be paying as a backdoor way of supplementing the federal budget,'** said Rep. Ralph Regula, R-Ohio, who chairs the House Appropriations subcommittee that oversees education spending.

"The administration proposal has run into objections from congressional Democrats and Republicans alike. Critics say it would force higher long-range costs on student borrowers while benefiting lenders like Sallie Mae, the nation's largest source of education loans.

**'It is equivalent to a huge tax increase on students who will be struggling to make ends meet after graduation,'** said Ranit Schmelzer, spokeswoman for Senate Majority Leader Tom Daschle, D-S.D. 'This is a proposal that Senate Democrats strongly object to, and it will not become law.'

—from the *Associated Press*, 'Congress cool to Bush proposals for savings from student loans, other programs' (April 29, 2002)

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"Democratic lawmakers and consumer groups had opposed the change. All 22 Democrats on the House education committee wrote to President Bush saying that keeping low interest rates for students was critical to making college affordable. Representative George Miller of California, the senior Democrat on the committee, said **raising the costs of higher education when many families were struggling to pay their bills was "completely wrongheaded."**

—from *The New York Times*, 'Bush Drops Unpopular Plan to Raise Cost of Student Loans' (May 3, 2003)

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"The Bush administration was forced to do an about-face last week, after a proposal it had made to restrict student-loan borrowers from consolidating their loans at a low, fixed interest rate ran into **a firestorm of criticism from advocates for students, college lobbyists, Democratic lawmakers, and even some Republicans in Congress.**"

—from *The Chronicle of Higher Education*, 'Under Fire, White House Drops Loan-Consolidation Plan' (May 10, 2002)